



THE CITY OF SAN DIEGO

DATE: June 12, 2009

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: **City Auditor Activity Report – May 2009**

This report provides information on the activities and accomplishments of the Office of the City Auditor for the month of May 2009. It includes the audit reports issued and other accomplishments during this period, the status of current audit projects and activities, and a summary of planned audits that we have not yet started.

Audit Reports and Accomplishments:

- May 5, 2009 – Issued our audit report of San Diego Data Processing Corporation's Compensation and Budgeting Practices. Based on our audit we found that SDDPC budgeting and compensation policies could be improved. We also found that Council approval of SDDPC's annual budget was not directly obtained as required by the Operating Agreement during the period we reviewed. We have made six recommendations to strengthen SDDPC's budgeting and compensation practices. The report can be found on our website at: <http://www.sandiego.gov/auditor/pdf/sddpccompensationaudit.pdf>
- May 8, 2009 – Issued our audit report of Qualcomm Stadium. Based on our audit we found that the City faces many unique operating and administrative challenges managing the Stadium. These challenges include Stadium operations are not self-sustaining, complex agreements and legal settlements have significantly restricted revenue generating performance, the early termination of the Chargers' agreement could leave the City with a \$21.4 million bonded debt obligation, and other issues. We made nine recommendations to help improve the oversight of Stadium operations. The report can be found on our website at: <http://www.sandiego.gov/auditor/pdf/qualcommauditreport.pdf>

Audit Reports and Accomplishments (Continued):

- May 18, 2009 – Issued the Third Quarterly Fraud Hotline Report for Fiscal Year 2009. The report provided statistics on the number and nature of hotline calls received, and information on any complaints of fraud, waste or abuse that were substantiated or where corrective actions were taken. This report can be found on our website at: http://www.sandiego.gov/auditor/pdf/fraud_q3_09update.pdf
- May 20, 2009 – Issued our Park and Recreation Pool audit report. Based on our audit we found that the City’s swimming pool revenue collection process is an outdated, manual process that is labor intensive and inefficient. As a result, citizens have to enroll in swimming programs and pay swimming fees in person. Our audit also revealed that the City’s current revenue collection process contains material control weaknesses that put the Department at risk for theft and misappropriation. In addition, we reviewed the new federal pool safety regulations that require all public pools be equipped with anti-entrapment drain covers, and we found the Department is in compliance with these regulations. We made two recommendations regarding process automation and fifteen recommendations to improve controls over cash handling and to strengthen pool oversight. The report can be found on our website at: <http://www.sandiego.gov/auditor/pdf/parkandrecreationpoolaudit.pdf>
- May 28, 2009 – Issued a Hotline Report regarding our investigation in response to a call made to the City’s Fraud Hotline involving a City employee. We confirmed allegations that the employee used his/her City email address and position as a City employee to misrepresent himself/herself as a court official to obtain confidential out-of-state family court documents. We recommended the department take appropriate disciplinary, and the employee’s City employment was terminated. The report can be found on our website at: <http://www.sandiego.gov/auditor/pdf/hotlineinvestigationreport.pdf>
- May 4, 2008—City Auditor presented “Signs of Trouble: Red Flags to Look For When Auditing Non-Profits,” Association of Local Government Auditor’s Annual Conference, San Francisco, CA.

Current Audits and Activities:

Audit Activity	Status	Target Completion Date
Close-out Audits	Close-out audits are required by City Charter, Article VII, Section 111 when a City Official leaves office. The primary audit objectives are to verify that there are no outstanding debts owed by the City Official to the City, and to ensure that access to critical information and processes has been revoked. We are conducting four close-out audits for City management officials. A draft audit report covering all four individuals is being reviewed by City management. We have used approximately 233 audit hours.	June 15, 2009
Proposition 64 Funds Audit	The objective of this requested audit is to determine if Proposition 64 funds are being properly budgeted and used solely for the enforcement of consumer protection laws. We have used approximately 542 audit hours, and the draft audit report is under review by Audit management.	June 30, 2009
San Diego Housing Commission Audit	The objective of this audit is to determine if the San Diego Housing Commission has sound procurement and executive compensation practices. We will also review their development and asset management program. A draft audit report is being reviewed by the Housing Commission and City management. We have used approximately 1,504 audit hours.	June 30, 2009

Current Audits and Activities (Continued):

Audit Activity	Status	Target Completion Date
Water / Metropolitan Wastewater Department Contract Audit	The objective of this audit is to determine if vendors are in compliance with contract terms. We have used approximately 449 audit hours, and a draft audit report is being reviewed by Audit management.	June 30, 2009
Centre City Economic Development Corporation (CCDC) Audit	Sjoberg Evashenk Consulting, Inc. has been awarded the contract to conduct a performance audit of CCDC. Audit fieldwork is completed and the draft audit report is being prepared.	June 30, 2009
Hiring Process of the Director of Purchasing and Contracting	At the request of the Mayor's Office, the City Auditor has initiated a review of the hiring process of the Director of Purchasing and Contracting. Since all City Auditor staff are currently engaged in audits of high risk City activities, we hired Sjoberg Evashenk Consulting, Inc. to conduct this audit. We expect to initiate and complete this audit in June 2009.	June 30, 2009
San Diego Convention Center Corporation (SDCCC) Audit	Mayer Hoffman McCann P.C. has been awarded the contract to conduct a performance audit of SDCCC. Audit fieldwork is in progress.	August 15, 2009

Current Audits and Activities (Continued):

Audit Activity	Status	Target Completion Date
Purchasing and Contracting – Requisition, Purchase Order and Contract Management	The objective of this audit is to determine if Purchasing and Contracting has sound procurement procedures in place and to evaluate the efficiency and effectiveness of the department’s procedures. We completed the audit of the contracts associated with the debris removal program to clear homes destroyed in the wildfires within the scope of this audit. We are now going to audit the Citywide purchasing and contracting procedures. We have used approximately 1,629 audit hours to date.	TBD
Audit of Internal Control Remediations	The objective of this audit is to test and verify management’s remediation efforts to correct weaknesses identified in the Kroll Report, external auditors’ reports and the Internal Auditor’s reports. We have used approximately 1,962 audit hours, and we estimate an additional 478 hours will be needed. We have tested 78 percent of the items reported remediated as of December 31, 2007.	TBD
General Services - Streets Division Roadways Audit	The objective of this audit is to determine if the City streets are being efficiently and effectively maintained by the City. Audit fieldwork is in progress. We have used approximately 215 audit hours to date and we estimate an additional 385 audit hours will be needed.	TBD

Current Audits and Activities (Continued):

Audit Activity	Status	Target Completion Date
City Treasurer - Investment Activities Audit	The objective of this audit is to determine if investments are being properly handled, accounted for and accurately reported in the City's financial statements. This audit is in the planning stage. We have used approximately 42 audit hours to date and we estimate an additional 558 audit hours will be needed.	TBD
Enterprise Resource Planning (ERP) System Implementation Review	The objectives of this audit are to: (a) determine if the City's key financial activities are being adequately reviewed and documented prior to the new system implementation to ensure key financial processes are properly addressed by the new system and (b) determine if the system was adequately tested prior to implementation. Approximately 1,404 audit hours have been used for this review, and we estimate an additional 526 hours will be needed.	TBD
City Treasurer - Delinquent Account Collections Audit	The objective of this audit is to determine if overdue accounts due to the City are being properly noticed, collected, accounted for, and accurately reported in the City's financial statements. This audit is in the planning stage. We have used approximately 17 audit hours to date and we estimate an additional 783 audit hours will be needed.	TBD

Current Audits and Activities (Continued):

Audit Activity	Status	Target Completion Date
Purchasing and Contracting - Equal Opportunity Contracting and Labor Compliance Audit	The objective of this audit is to determine the efficiency and effectiveness of the City's equal opportunity contracting and labor compliance. This audit is in the planning stage. We have used approximately 106 audit hours to date and we estimate an additional 294 audit hours will be needed.	TBD
Disclosure Practices Working Group (DPWG)	City Auditor staff participates in DPWG meetings as an ex officio member. Approximately 17 hours were spent participating in various DPWG meetings during the month.	On-going
Fraud, Waste and Abuse Hotline	We review and administer the City's Hotline calls that are received. We prepare reports for the calls that are personnel related and they are reviewed at biweekly hotline intake committee meetings by Labor Relations and the Personnel Department. Investigations are performed by the Office of the City Auditor for accusations of material fraud, waste or abuse, and we issue Hotline Reports on any fraud related allegations that are substantiated. During the month of May, there were approximately seven new hotline calls received. We have spent approximately 1,022 hours investigating calls this fiscal year.	On-going

Current Audits and Activities (Continued):

Audit Activity	Status	Target Completion Date
Follow-up on Previously Issued Audit Reports – San Diego Data Processing Corporation (SDDPC)	We are performing a follow-up audit on the recommendations made to SDDPC in an audit report issued in 2004, and we are reviewing compensation, budgeting and governance issues. We issued a report on SDDPC's compensation and budgeting practices on May 5, 2009, and the target date to issue the final report on our follow-up of prior recommendations and governance issues is June 30, 2009. We have used approximately 688 audit hours and we estimate an additional 120 audit hours will be needed.	On-going
Follow-up on All Audit Reports Issued in FY08 Through the First Quarter of FY09	We have created a database to track all of our audit recommendations made since FY08. We will be sending memos at the end of FY09 to City Departments that were issued audit reports to determine their status of implementing the audit recommendations made through June 30, 2009.	On-going

Planned Audits Not Yet Started:

Planned Audit	Description	Estimated Audit Hours
Risk Management - Public Liability and Loss Recovery Audit	The objective of this audit is to determine if public liability and loss recovery is being properly handled, accounted for and accurately reported in the City's financial statements.	800
City Treasurer - Parking Meter Operations Audit	The objective of this audit is to determine if the collections for parking meters is being properly accounted for and efficiently and effectively handled.	600
Annual Central Stores Inventory Audit FY09	The San Diego Municipal Code Section §22.0501 requires an annual audit of inventory in the City storerooms and warehouses. The objective of this audit is to confirm the valuation of Central Stores inventory and to evaluate the storerooms' internal controls to safeguard inventory.	80 (FY09) 160 (FY10)



Eduardo Luna
City Auditor

cc: Honorable Mayor Jerry Sanders
Honorable City Council Members
Jay M. Goldstone, Chief Operating Officer
Mary Lewis, Chief Financial Officer
Jan Goldsmith, City Attorney

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Honorable Members of the Audit Committee
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Andrea Tevlin, Independent Budget Analyst
Stanley Keller, Independent Oversight Monitor